SA Consumer Credit Index | Q1 2021

Executive Summary

Credit index rises strongly again in Q1

Index: 50.0 = breakeven

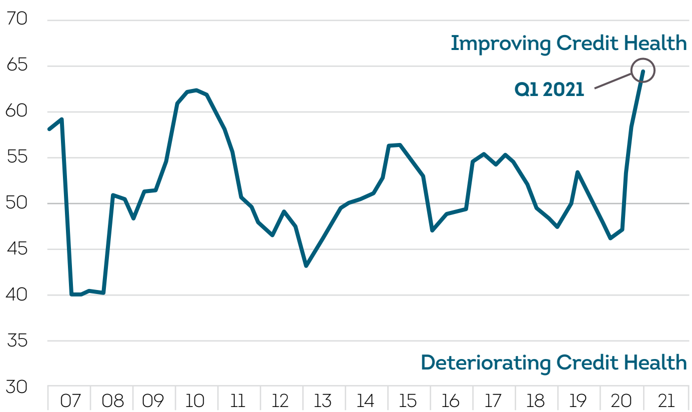
- **The TransUnion SA Consumer Credit Index (CCI) improved to 64 in Q1 2021, the highest CCI level on record, up from 59 in Q4 2020.**[1] The index measures consumer credit health where 50.0 is the break-even level between improvement and deterioration.
- The last time the CCI improved this strongly was after the 2008/09 financial crisis, suggesting it reflects recovery from deep distress rather than outright household strength. The index continued its strong improvement from Q4, reflecting the benefits of opening up economic activity despite Level 3 lockdown restrictions in January. Consumer borrowing and repayment behaviour remained reflective of recovering rather than deteriorating household financial health. Incomes continued to grow in Q1, and very low interest rates continued to support credit affordability.
- The ongoing improvement of the CCI in Q1 is consistent with broader recovery in economic indicators as reflected in various production and turnover surveys and data (Bureau of Economic Research, Stats SA). South African retail sales (inflation-adjusted), for example, climbed in February to levels comfortably higher than they were before COVID-19.
- In last quarter's report, we stressed that the improvement in the CCI likely obscures tremendous increased disparities between households across South Africa. We maintain this view, though in Q1 2021 there was probably some financial improvement among previously financially stressed households due to broader economic improvement and likely further clawing back of lost employment.

1 Q4 revised to 59 from 58 due to data updates and revisions

- **The previous report also stated that the CCI seemed likely to fall again in Q1 (though remain above 50.0) in part due to the Level 3 lockdown in January. However, it seems that these restrictions merely temporarily slowed economic activity and that underlying improvements remained in place.**
- **Seemingly strong demand conditions in February and March and into Q2 may be stoking some inflation pressures which could negatively impact household finances as the year progresses. However, the Q2 CCI is likely to remain relatively high due to base effects of the slump in conditions in Q2 2020.**
- **Accounts in default** (3 months in arrears) decreased by 5% y/y in Q1. On a seasonally adjusted basis, the rate of new defaults continued falling q/q, the third consecutive quarterly decline since new defaults peaked in Q2 2020. Although total arrears older than 3-months remain elevated, with many customers already in arrears falling further behind, a notable feature of credit health is that new default rates remain unalarming despite a year of extremely difficult economic conditions.
- **Distressed borrowing** (revolving credit utilisation) declined by nearly 6% y/y in Q1, and fell by more than 2% over the quarter. The decline in distressed borrowing is another notable feature of the COVID-19 landscape, but also one that likely masks significant disparities.
- **Household cash flow (HCF)** increased nearly 8% y/y in Q1, remaining strong from Q4. The recovery in income combined with a rise in saved household deposits with banks has caused the average household cash position to improve. The y/y cashflow data for Q2 and Q3 2021 is likely to be especially strong due to base effects from a slump in mid-2020.
- **Household debt service costs** relative to incomes probably declined marginally in Q1 as incomes recovered relative to debt levels and interest rates remained low. The prime lending rate ended Q1 at 7%.

Q1 2021 CCI: Key Facts and Figures

TransUnion SA Consumer Credit Index



TransUnion, ETM, Macrobond

No. of consumer accounts measured: **53.5 million**

No. of accounts three months in arrears: **896,000**

Value of revolving credit measured: **R191 billion**

Estimated Q1 2021 non-discretionary consumer price inflation (NDCPI): **+2.8% y/y (Q4: +2.3% y/y)**

Estimated Q1 2021 NDCPI-adjusted disposable income growth: **-3.4% y/y (Q4: -3.1% y/y)**[2]

Estimated aggregate, annual household disposable income: **R2.37 trillion (Q4: R2.34tr)**[2]

Estimated national household bank debt as a percentage of disposable income: **75%**[3]

Prime overdraft rate at end Q1 2021: **7.00%**

DATA WEIGHTING IN THE TRANSUNION CCI

TransUnion Defaults & Distressed Borrowing	Household Cashflow	Debt Servicing Costs
50%	35%	15%

2 Subject to revision due to income uncertainties resulting from lockdown
3 This is subject to revision when official data is released

Unpacking the 1st Quarter 2021 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults

New defaults (3 months in arrears) decreased by 5% y/y in Q1. On a seasonally adjusted basis, the rate of new defaults continued falling q/q, the third consecutive quarterly decline since new defaults peaked in Q2 2020. Although, total arrears older than 3-months remain elevated, with many customers already in arrears falling further behind, **a notable feature of credit health is that new default rates remain unalarming despite a year of extremely difficult economic conditions.**

TransUnion payment profile data shows the proportion of total consumer accounts 3-months in arrears fell in Q1 to about 13% below their peak in Q2 2020 on a seasonallyadjusted basis. While encouraging, it also obscures potentially growing disparities between household segments, where some are experiencing far lower rates of default, and others, far higher rates. Market segmentation is a key factor to appreciate beneath the headline CCI.

2. Distressed borrowing

Revolving credit (credit cards and store cards) used as a percentage of one's credit limit is a distressed borrowing indicator.

According to TransUnion data, revolving credit use declined by nearly 6% y/y in Q1, and fell by more than 2% over the quarter. The decline in distressed borrowing is another notable feature of the COVID-19 landscape, but also one that likely masks significant disparities.

There were no signs of additional household credit distress in Q1, despite lingering weakness in total employment. One important reason why many households are not resorting to unsecured revolving credit use is the caution brought about by highly uncertain economic conditions, higher savings and cuts to expenses from staying home more, recovering employment, and of course lower interest rates freeing up monthly budget space.

Household cash flow (HCF)

Household cash flow (HCF) increased nearly 8% y/y in Q1, remaining strong from Q4. The recovery in income combined with a rise in saved household deposits with banks has caused the average household cash position to improve. The y/y cashflow data for Q2 and Q3 2021 is likely to be especially strong due to base effects from a slump in mid-2020.

Our cashflow measure may appear to somewhat overstate the recovery in household income and savings because it draws partly on very buoyant money supply growth data. Money supply nonetheless represents readily spendable income held in short term bank deposits. **Strong household cashflows underscore the likely increased income disparities emerging since the COVID-19 crisis.**

Household debt serviceability

The SARB left the repo rate on hold at 3.5% and prime at 7.0% in Q1. Household debt service costs relative to incomes probably declined marginally in Q1 as incomes recovered relative to debt levels and interest rates remained low.

With the SARB now reluctant to cut interest rates and the bulk of the income recovery completed, additional benefits of the 2020 rate cuts will likely be minimal. If anything, **emerging inflation pressures could pressure the SARB into hiking rates gradually later in 2021 if economic recovery proves lasting and robust.**

Further Insight: Is the Q4 CCI unusual?

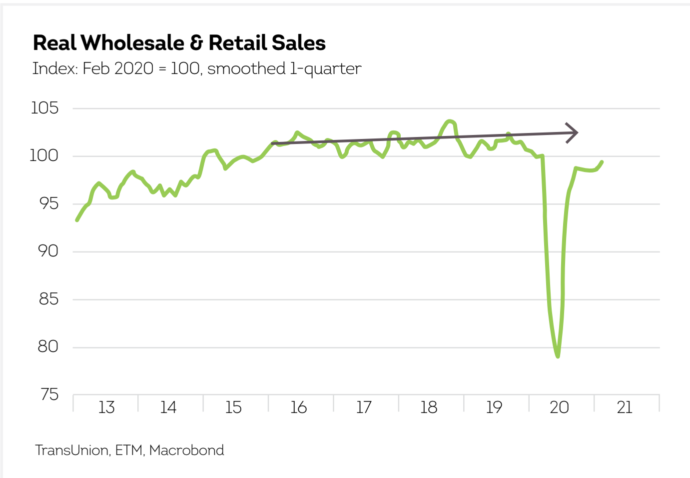
Is the retail sector strong or merely repairing damage?

The impressive rise in the CCI in Q4 and Q1 may seem implausible, but the index represents a sharp recovery in economic activity after opening up the economy from debilitating lockdowns in conjunction with large interest rate cuts, recovering employment, and prudent credit management by credit providers and customers.

Much of this better news can be seen in recent retail performance. Official Stats SA data show inflation-adjusted retail sales increased nearly 5% y/y in February, the fastest y/y rate of growth since early 2018. In the three months to the end of February, food and beverage sales (inflation-adjusted) increased nearly 10% q/q.

Through the course of Q1, movement to and from SA retail stores (as measured by Google mobility data) had recovered back to pre-COVID-19 levels after a dip in January due to Level 3 lockdown restrictions. And over the first three months of 2021, a basket of prominent South African retail shares[4] delivered a very impressive 20% return (JSE data).

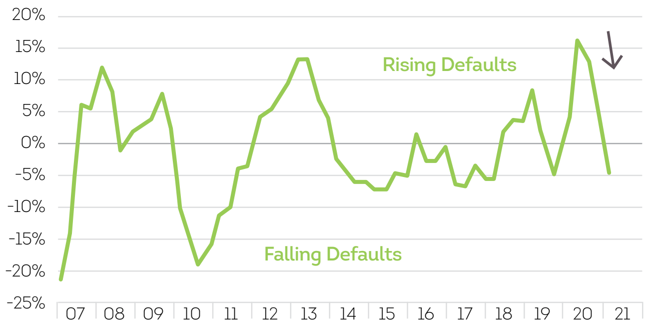
This impressive retail recovery must however be viewed in the context of repairing damage from 2020 rather than outright strength. Retail and wholesale volumes have recovered back to pre-COVID-19 levels, but on a smoothed basis remain below their 2015-2020 trend (chart below). Much repair work lies ahead for the sector in 2021.



4 Cashbuild, Italtile, Lewis, Massmart, Mr Price, Pick'n Pay, Shoprite, Spar, TFG, Truworths, Woolworths: weighted by market capitalisation

TransUnion: Accounts in Default

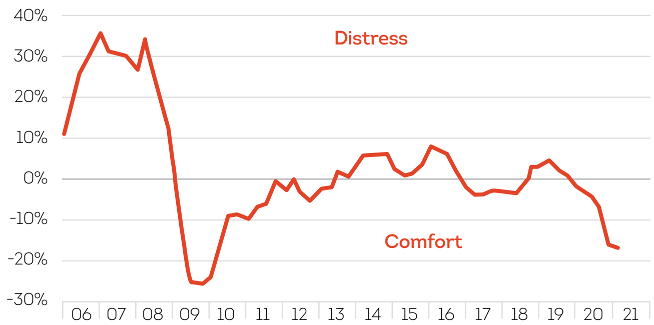
3m Arrear Acc/Total Accounts, y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Debt Service Cost

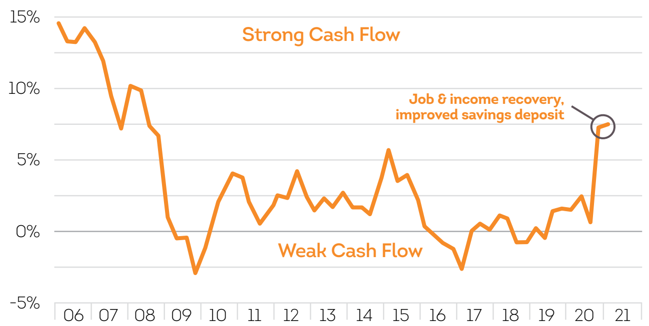
Debt service cost: disposable income ratio, y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

ETM: Household Cash Flow

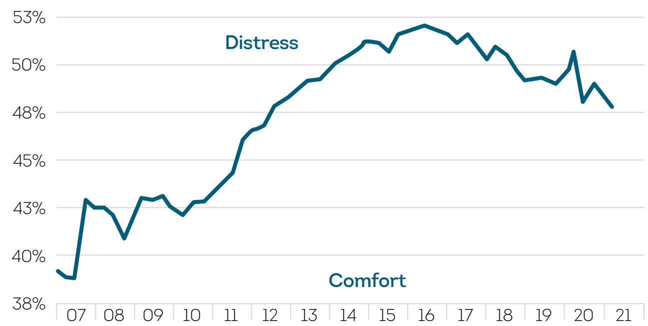
NDCPI-adj. money supply & disposable income, avg y/y % change



TransUnion, ETM, Macro Advisors, Macrobond

TransUnion: Revolving Credit Utilisation

Revolving credit current/opening balance, avg y/y % change



TransUnion, ETM Macro Advisors, Macrobond

The TransUnion SA Consumer Credit Index: Key Information

What is the Consumer Credit Index?

The TransUnion SA Consumer Credit index is an **indicator of consumer credit health** compiled by **TransUnion, a global leader in risk and information solutions** with technical support from **ETM Macro Advisors**, and released quarterly.

It measures the aggregate consumer loan repayment record, tracks the use of revolving consumer credit facilities as an indicator of distressed borrowing, estimates household cash flow as a means of determining financial pressure/relief, and quantifies the relative cost of servicing outstanding debt.

The indicator combines actual consumer borrowing and repayment behaviour with key macroeconomic variables impacting on household finances.

A 'diffusion' index

The index is designed to fluctuate within the set logical minimum and maximum of zero to 100, with 50.0 as the so-called 'breakeven' point. **Levels above 50.0** are associated with higher rates of loan repayment, lower credit card utilisation, improving household cash flow, lower interest rates, and credit deleveraging, and vice versa for **levels below 50.0**.

- 50-60/40-50: **moderate** improvement/deterioration.
- 60-70/30-40: **strong** improvement/deterioration.
- 70-90/10-30: **extreme/unusual** improvement/deterioration.
- 90-100/0-10: **highly improbable** improvement/deterioration.

The data

The Index has three main data components:

- **TransUnion Credit Bureau data**[5]
- **Official public domain statistics**
- **Proprietary analytics of public domain statistics**

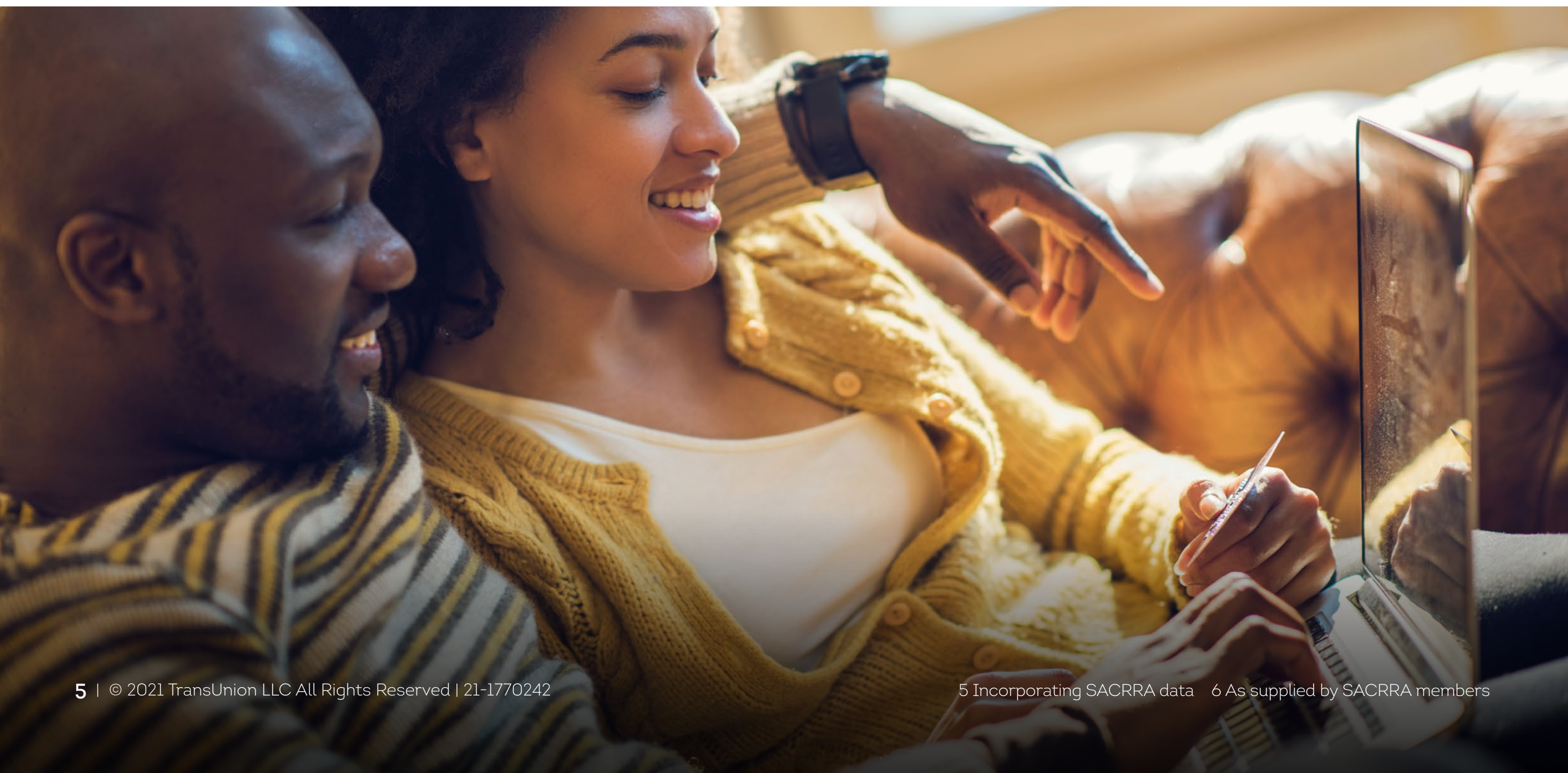
TRANSUNION CREDIT BUREAU
Consumer credit card utilisation[6]; number of consumer credit accounts in arrears (TransUnion).

OFFICIAL PUBLIC DOMAIN STATISTICS
Prime interest rate; household debt to disposable income ratio (SARB).

PROPRIETARY ANALYTICS OF PUBLIC DOMAIN STATISTICS
Non-discretionary CPI derived from the official Consumer Price Index, 'Alternative Money Supply' derived from official money supply and credit data (ETM Analytics; SARB, Stats SA).

Data weighting in the TransUnion CCI

TransUnion Data	50%
Proprietary Analytics	35%
Official Public Data	15%

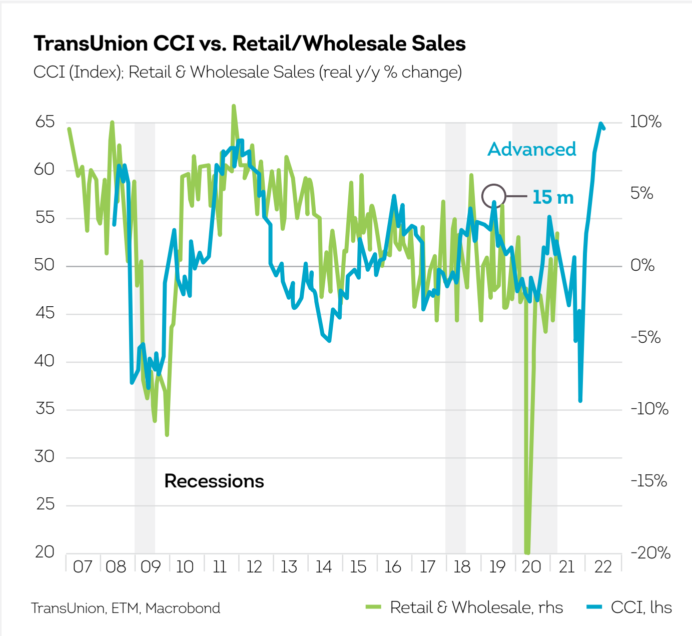


5 Incorporating SACRRA data 6 As supplied by SACRRA members

Real world application

The index may be considered a credible indicator of macroeconomic events and growth cycles for sectors affected by consumer finances and credit behaviour. In the following chart, the TransUnion SA CCI is compared to year-on-year retail & wholesale sales growth, with a 15-month lag. The relationship is distorted by the COVID-19 lockdown-related crash in retail and wholesale sales. Even adjusting for this, it suggests scope for stabilisation and growth in retail sales volumes.

The sub-components of the index provide valuable business insights in their own right, which can be used to evaluate consumer behaviour, financial distress, household cash flow, and household budget dynamics.



Consumer Credit Report

Information is a powerful thing. As a credit bureau we provide you with credit data which credit lenders use to evaluate your credit history when you apply for loans and credit. Your credit report gives you a view of all your debt and payments in the last 24 months.

To order your credit report: Call the TransUnion Interactive Call Centre at **0861 482 482** or visit us at **www.mytransunion.co.za**.

Monday–Friday, 07h30–18h00 Saturday, 09h00–13h00

CreditVision

A TransUnion analysis identified 3 million consumers who could not gain access to credit based on traditional scoring models. **What would an extra 3 million potential customers mean for your business?**

CreditVision not only allows you to say yes more, but now you can say yes more confidently. By using trended and alternative data in how you score a consumer, our analysis also showed we could improve risk predictability by 56%.

Find out how you can safely expand your borrower universe in a competitive market.

Visit us at **transunion.co.za/business**.

Contact Us

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You can view the index online at **transunion.co.za/lp/CCI**.